

# House Study Bill 69 - Introduced

HOUSE FILE \_\_\_\_\_

BY (PROPOSED COMMITTEE ON  
AGRICULTURE BILL BY  
CHAIRPERSON GRASSLEY)

## A BILL FOR

1 An Act providing a tax credit for lessors or lessees of  
2 agricultural land in order to support beginning farmers.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 2.48, subsection 3, paragraph e,  
2 subparagraph (1), Code 2013, is amended to read as follows:

3 (1) The agricultural assets transfer tax credit under  
4 section 175.37 and the agricultural expansion tax credit as  
5 provided in section 175.37A.

6 Sec. 2. Section 175.37, subsection 5, Code 2013, is amended  
7 to read as follows:

8 5. The tax credit shall be calculated based on the gross  
9 amount paid to the taxpayer under the agricultural assets  
10 transfer agreement.

11 a. Except as provided in paragraph "b", the tax credit shall  
12 equal ~~five~~ seven percent of the amount paid to the taxpayer  
13 under the agreement.

14 b. The tax credit shall equal ~~fifteen~~ seventeen percent  
15 of the amount paid to the taxpayer from crops or animals sold  
16 under an agreement in which the payment is exclusively made  
17 from the sale of crops or animals.

18 Sec. 3. Section 175.37, subsection 8, unnumbered paragraph  
19 1, Code 2013, is amended to read as follows:

20 A taxpayer shall not claim a tax credit under this section  
21 unless a tax credit certificate issued by the authority is  
22 attached to the taxpayer's tax return for the tax year for  
23 which the tax credit is claimed. The authority must review  
24 and approve an application for a tax credit as provided by  
25 rules adopted by the authority. The application must include  
26 a copy of the agricultural assets transfer agreement. The  
27 authority may approve an application and issue a tax credit  
28 certificate to a taxpayer who has previously been allowed a  
29 tax credit under this section. The authority may require  
30 that the parties to an agricultural assets transfer agreement  
31 provide additional information as determined relevant by the  
32 authority. The authority shall review an application for  
33 a tax credit which includes the renewal of an agricultural  
34 assets transfer agreement to determine that the parties to the  
35 renewed agreement meet the same qualifications as required for

1 an original application. ~~However,~~ The authority shall not  
2 approve an application or issue a tax credit certificate to a  
3 taxpayer for an amount in excess of fifty thousand dollars.  
4 In addition, the authority shall not approve an application  
5 or issue a tax credit certificate to a taxpayer if any of the  
6 following applies:

7     Sec. 4. Section 175.37, subsection 10, Code 2013, is amended  
8 by striking the subsection.

9     Sec. 5. NEW SECTION. **175.37A Agricultural expansion tax**  
10 **credit.**

11     1. An agricultural expansion tax credit is allowed under  
12 this section. The tax credit is allowed against the taxes  
13 imposed in chapter 422, division II, as provided in section  
14 422.11M, and in chapter 422, division III, as provided in  
15 section 422.33, to facilitate the expansion of agricultural  
16 production by beginning farmers who qualify under this section.

17     2. In order to qualify for the agricultural expansion tax  
18 credit, a beginning farmer must be a party to an agricultural  
19 assets transfer agreement, including a renewed agreement,  
20 approved by the authority as provided in section 175.37. The  
21 beginning farmer may claim the agricultural expansion tax  
22 credit even if the other party to the agricultural assets  
23 transfer agreement does not claim an agricultural assets  
24 transfer tax credit allowed under section 175.37.

25     3. The agricultural expansion tax credit applies to costs  
26 incurred by the beginning farmer that are attributable to the  
27 expansion of an agricultural operation on land leased by the  
28 beginning farmer pursuant to the agricultural assets transfer  
29 agreement.

30     4. The agricultural expansion tax credit must be claimed in  
31 a tax year that is all of the following:

32     a. Begins at least twenty-four months after the original  
33 agricultural assets transfer agreement is approved by the  
34 authority.

35     b. Occurs during some period that the original or renewed

1 agricultural assets transfer agreement is effective.

2 5. The amount of the agricultural expansion tax credit  
3 equals seven percent of the total amount of costs incurred by  
4 the beginning farmer for the acquisition of property qualifying  
5 under subsection 6 in the tax year for which the tax credit is  
6 claimed. The total amount of such costs must equal at least  
7 five thousand dollars.

8 6. *a.* The acquired property qualifies for the agricultural  
9 expansion tax credit if it is any of the following:

10 (1) Farm machinery and equipment exempt from sales and  
11 use tax as provided in chapter 423. The farm machinery and  
12 equipment must be stored on the leased land subject to the  
13 agreement and must be directly and primarily used on the leased  
14 land in the production of crops as defined in section 202.1  
15 or animals as defined in section 459.102 during the remaining  
16 period of the agreement or renewed agreement.

17 (2) An animal as defined in section 459.102. Each animal  
18 must be primarily kept on the leased land subject to the  
19 agreement. There must be a ten percent increase in the number  
20 of animal units kept by the beginning farmer on the leased land  
21 by computing the maximum number of animal units kept at any one  
22 time on the leased land in the current tax year when compared  
23 to the previous tax year. Animal units shall be calculated in  
24 the same manner as provided in section 459.102.

25 *b.* The agricultural expansion tax credit is only allowed  
26 for the reasonable market value of the acquired property and  
27 is disallowed if the acquired property is transferred for less  
28 than its reasonable market value. The authority may presume  
29 that the property's reasonable market value equals the sales  
30 price paid or received by the beginning farmer when purchasing  
31 or selling the property in the ordinary course of business.

32 7. An agricultural expansion tax credit in excess of the  
33 taxpayer's liability for the tax year may be credited to the  
34 tax liability for the following five years, the tax year  
35 following the expiration of the agricultural assets transfer

1 agreement, or until depleted, whichever is earlier. A tax  
2 credit shall not be carried back to a tax year prior to the tax  
3 year in which the taxpayer claims the tax credit. A tax credit  
4 carried forward pursuant to this subsection is not transferable  
5 other than to the beginning farmer's estate or trust upon the  
6 beginning farmer's death.

7 8. A beginning farmer shall not claim an agricultural  
8 expansion tax credit unless a tax credit certificate issued by  
9 the authority is attached to the taxpayer's tax return for the  
10 tax year for which the tax credit is claimed.

11 a. The authority must review and approve an application  
12 for a tax credit certificate. The application must include a  
13 copy of the agricultural assets transfer agreement and evidence  
14 that the taxpayer has complied with the requirements of this  
15 section. The authority may require that the parties to an  
16 agricultural assets transfer agreement provide additional  
17 information as determined relevant by the authority.

18 b. The tax credit certificate shall contain the beginning  
19 farmer's name, address, and tax identification number; the  
20 amount of the tax credit; and any other information required  
21 by the department of revenue.

22 c. The tax credit certificate, unless otherwise void, shall  
23 be accepted by the department of revenue as payment for taxes  
24 imposed pursuant to chapter 422, division II or III, subject to  
25 any conditions or restrictions placed by the authority upon the  
26 face of the tax credit certificate.

27 d. The authority shall not approve an application or issue  
28 a tax credit certificate to a beginning farmer for an amount in  
29 excess of fifty thousand dollars.

30 e. The tax credit certificate is not transferable other than  
31 to the beginning farmer's estate or trust upon the beginning  
32 farmer's death.

33 9. a. A beginning farmer who terminates the agricultural  
34 assets transfer agreement must immediately notify the authority  
35 of the termination. Upon termination of an agreement, the

1 authority shall not issue a tax credit certificate for the  
2 agricultural expansion tax credit to the beginning farmer for  
3 a subsequent tax year.

4     *b.* If the authority determines that the beginning farmer  
5 is not at fault for the termination, any prior tax credit  
6 allowed as provided in this section shall continue until its  
7 expiration.

8     *c.* If the authority determines that the beginning farmer is  
9 at fault for the termination, any prior agricultural expansion  
10 tax credit allowed under this section is disallowed, and the  
11 amount of the tax credit shall be immediately due and payable  
12 to the department of revenue. If the beginning farmer does  
13 not immediately notify the authority of the termination, the  
14 beginning farmer shall be conclusively deemed at fault for the  
15 termination.

16     10. An individual who is a beginning farmer may claim  
17 the agricultural expansion tax credit allowed a partnership,  
18 limited liability company, S corporation, estate, or trust  
19 electing to have the income taxed directly to the individual.  
20 The amount claimed by the individual shall be based upon the  
21 pro rata share of the individual's earnings of a partnership,  
22 limited liability company, S corporation, estate, or trust.

23     11. The authority shall adopt rules to administer this  
24 section. The rules may provide for the following:

25     *a.* Allowed methods for a beginning farmer to acquire or  
26 transfer property eligible for the agricultural expansion tax  
27 credit.

28     *b.* The review and approval of tax certificates required for  
29 the agricultural expansion tax credit. The authority shall  
30 cooperate with the department of revenue in implementing this  
31 paragraph "b".

32     Sec. 6. NEW SECTION. 175.37B Amount of tax credit  
33 certificates available — agricultural assets transfer tax credit  
34 and agricultural expansion tax credit.

35     The amount of tax credit certificates that may be issued

1 by the authority under sections 175.37 and 175.37A shall not  
2 in the aggregate exceed twelve million dollars in any fiscal  
3 year. Each year, the authority shall allocate a percentage  
4 of certificates to support tax credits to be issued under  
5 sections 175.37 and 175.37A. However, the authority may adjust  
6 the allocation during the year as it deems necessary. The  
7 authority shall issue tax certificates allocated under each  
8 section on a first-come, first-served basis.

9 Sec. 7. Section 422.11M, Code 2013, is amended to read as  
10 follows:

11 ~~422.11M Agricultural assets transferred to beginning~~  
12 Beginning farmers — agricultural assets transfer and expansion  
13 of operations.

14 The taxes imposed under this division, less the credits  
15 allowed under section 422.12, shall be reduced by ~~an~~ the  
16 following:

17 1. An agricultural assets transfer tax credit as allowed  
18 under section 175.37.

19 2. An agricultural expansion tax credit as allowed under  
20 section 175.37A.

21 Sec. 8. Section 422.33, subsection 21, Code 2013, is amended  
22 to read as follows:

23 21. The taxes imposed under this division shall be reduced  
24 by ~~an~~ the following:

25 a. An agricultural assets transfer tax credit as allowed  
26 under section 175.37.

27 b. An agricultural expansion tax credit as allowed under  
28 section 175.37A.

29 Sec. 9. EFFECTIVE UPON ENACTMENT. This Act, being deemed of  
30 immediate importance, takes effect upon enactment.

31 Sec. 10. APPLICABILITY. This Act applies retroactively to  
32 January 1, 2013, for tax years beginning on or after that date.

33 EXPLANATION

34 BACKGROUND AGRICULTURAL ASSETS TRANSFER TAX CREDIT. In  
35 2006, the general assembly enacted S.F. 2268 (2006 Iowa Acts,

1 ch. 1161) that provides a tax credit for owners of agricultural  
2 assets (agricultural land, depreciable agricultural property,  
3 crops, or livestock) who help beginning farmers acquire  
4 those agricultural assets by lease or rental arrangements.  
5 The program is administered by the agricultural development  
6 authority (authority) established within the department of  
7 agriculture and land stewardship. A beginning farmer is an  
8 individual, partnership, family farm corporation, or family  
9 farm limited liability company as provided under Code chapter  
10 9H (Iowa's corporate farming law), with a low or moderate net  
11 worth who engages in farming or wishes to engage in farming.  
12 The owner who executes an agricultural assets transfer  
13 agreement approved by the authority may claim a tax credit  
14 against individual or corporate income tax liability after  
15 receiving a certificate issued by the authority. Generally,  
16 the lessor must be a person who may acquire or otherwise  
17 obtain or lease agricultural land under Code chapter 9H or 9I  
18 (restricting corporate and foreign ownership of agricultural  
19 land). The bill provides a number of restrictions upon the  
20 authority in approving applications and issuing certificates.  
21 The owner cannot be at fault for terminating a prior agreement,  
22 be involved in legal proceedings regarding environmental  
23 violations, or agree to provide more agricultural assets than  
24 the beginning farmer can be expected to adequately manage.  
25 The agricultural assets cannot be leased or rented at a rate  
26 substantially different from similar market arrangements. The  
27 agreement may be terminated, but if the termination is the  
28 fault of the owner, any tax credits must be repaid and no  
29 further tax credit certificates can be issued to the taxpayer.  
30 The tax credit equals 5 percent of the amount paid to the  
31 taxpayer under the agreement, except in the case of a landlord  
32 who shares in the costs associated with production. In that  
33 case, the tax credit equals 15 percent of the amount paid to  
34 the taxpayer from crops or animals sold.  
35 In 2009, the general assembly enacted S.F. 483 (2009 Iowa



1 Acts, ch. 135), which capped the amount of tax credits to be an  
2 amount not to exceed \$6 million per year with the requirement  
3 that the certificates must be issued on a first-come,  
4 first-served basis.

5 BILL — CHANGES TO THE AGRICULTURAL ASSETS TRANSFER TAX  
6 CREDIT. The bill increases the amount of the tax credit from  
7 5 to 7 percent of the amount paid to the taxpayer except in  
8 the case of a cost-share arrangement which is increased from  
9 15 to 17 percent. The lessee cannot be issued a tax credit  
10 certificate equaling more than \$50,000.

11 BILL — AGRICULTURAL EXPANSION TAX CREDIT. The bill  
12 enacts new Code section 175.37A to provide an agricultural  
13 expansion tax credit. The tax credit is also allowed against  
14 individual or corporate income tax liability. Its purpose  
15 is to facilitate the expansion of agricultural production by  
16 qualifying beginning farmers. In order to qualify for this tax  
17 credit, a beginning farmer must be a party to an agricultural  
18 assets transfer agreement, regardless of whether the owner who  
19 is the other party to the agreement claims the agricultural  
20 assets transfer tax credit.

21 The new tax credit applies to costs incurred by the  
22 beginning farmer that are attributable to the expansion of an  
23 agricultural operation on land leased by the beginning farmer  
24 pursuant to the agreement. The amount of the tax credit is 7  
25 percent of the total amount of costs incurred by the beginning  
26 farmer for the acquisition of certain property that is used on  
27 the leased land as part of crop or livestock production. The  
28 bill establishes a minimum investment threshold of \$5,000 and  
29 requires the property to be either farm machinery or equipment  
30 or livestock (referred to as animals), so long as the number  
31 of animals increases from the prior tax year. The tax credit  
32 applies to the reasonable market value of the property which is  
33 presumed to be its purchase price.

34 The authority is required to issue a tax credit certificate  
35 to the beginning farmer to be attached to the beginning

1 farmer's tax return. The authority cannot issue a tax credit  
2 certificate equaling more than \$50,000 in any tax year. A  
3 beginning farmer is entitled to limited carryforward but not a  
4 carryback. The beginning farmer cannot transfer the tax credit  
5 or tax credit certificate, except to an estate or trust upon  
6 the farmer's death.

7 The authority is required to adopt rules to administer the  
8 program and may allow methods for a beginning farmer to acquire  
9 or dispose of the qualified property and to review and approve  
10 applications for tax credit certificates.

11 The bill allows up to \$12 million in tax credit certificates  
12 for both the current agricultural assets transfer tax credit  
13 and the new agricultural expansion tax credit to be issued  
14 by the authority each year. Each year, the authority must  
15 allocate a percentage of certificates to support tax credits  
16 to be issued for each program, but may adjust the allocation  
17 during the year as it deems necessary. The authority must  
18 still issue tax certificates allocated under each program on a  
19 first-come, first-served basis.

20 The bill takes effect upon enactment and applies  
21 retroactively to January 1, 2013, for tax years beginning on  
22 or after that date.